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E.O. 12958: DECL: 10/27/2019
 TAGS: [ECON](#) [EMIN](#) [PREL](#) [ER](#) [GM](#)
 SUBJECT: ERITREA: GERMAN BANKS BAILING ON BISHA?
 REF: A. ASMARA 308
[1](#)B. 20OCT09 PASI/GAYTON-HAMIEL E-MAIL

Classified By: Ambassador Ronald K. McMullen for reason 1.4(d)

[1](#)1. (C) WARY OF POLITICAL RISK OF INVESTING IN ERITREA?

The German government extended a credit guarantee to a consortium of mostly German banks for a commercial loan of \$146m to Eritrea's Bisha mining project (REF A). The exact terms of this credit guarantee are not clear, but likely contained the sort of political risk insurance offered by OPIC to American investors abroad. Following up on initial information that the German government has pulled the plug on this credit guarantee (REF B), Post was told by an Asmara-based European diplomat that "a German Secretary of State for Foreign Affairs" has revisited the credit guarantee and recommended that it be rescinded due to Eritrea's spoiler role in the Horn of Africa and potential UN or AU sanctions. When the German ambassador to Eritrea was asked about this recently, his curt reply was, "That's secret." The European diplomat said the German ambassador is extremely upset with Berlin for caving in to what he sees as American pressure and is considering resigning.

[1](#)2. (C) IMPLICATIONS FOR THE ERITREAN MINING SECTOR

The stock of Nevsun, the Vancouver-based Canadian mining company that owns most of Bisha, has risen by more than 50% recently, based on promising news from Eritrea. This has enabled Nevsun to add some \$29m in badly needed private capitalization. A leading industry analyst describes Bisha as "one of the simplest and most attractive ore deposits in the world." Even if the German credit guarantee has been withdrawn (as seems to be the case) Bisha will continue, although the ambitious schedule of beginning production in the second half of 2010 may slip. Bisha's gold (worth about \$1b at today's prices) will be extracted within two and a half years and be refined in Switzerland and Canada, with

most of the gold revenue accruing to Nevsun for cost recovery. Once Bisha's gold cap is removed, the rich copper (to be smelted in India and Europe) and zinc deposits will be exploited for another eight to ten years. This "world-class" discovery is bound to be developed, but by what combination of partners and on what schedule?

Key questions:

- 1) Will the withdrawal of the official German credit guarantee (if true) cause the consortium of German banks to pull out or will the banks find another guarantor?
- 2) If the (mostly) German commercial loans are no longer available, will the Industrial Development Corporation of South Africa, which already has opened an \$89m debt facility for Bisha, increase its participation? How about the Chinese banks that have lent \$25m?
- 3) If Nevsun and the Eritrean government have to refinance the Bisha project, what sort of additional political risk costs will they have to pay and how much will it delay the project?

13. (C) ...AND BEYOND

Eritrea,s economy is running on fumes. It is heavily indebted and plunging remittances have nearly dried up its hard-currency reserves. The stoic Eritrean people are used to hardship and sacrifice, but the regime's chronic mismanagement of the economy has caused Isaias' political capital to fall to the lowest point in years. Private citizens and the few remaining private companies in Eritrea are hoping that once Bisha comes on line, more food, fuel, and jobs will be available. So far the regime has refused to take the reformist medicine prescribed by the IMF and World Bank, believing it can limp ahead to the date when Bisha comes on line. If that date is delayed due to the need for financial restructuring, Chinese and South African banks may move into the void, ordinary Eritreans will have to go without for longer, and the government may have to reconsider a reformist deal with the international financial institutes to ease its debt burden and other financial woes.

McMULLEN